



County of Los Angeles

CHIEF ADMINISTRATIVE OFFICE

713 KENNETH HAHN HALL OF ADMINISTRATION • LOS ANGELES, CALIFORNIA 90012
(213) 974-1101
<http://cao.co.la.ca.us>

DAVID E. JANSSEN
Chief Administrative Officer

June 3, 2003

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, CA 90012

Dear Supervisors:

RECOMMENDED POSITION ON STATE LEGISLATION (3 VOTES)

This letter contains a recommended position on State legislation affecting the County.

IT IS RECOMMENDED THAT YOUR BOARD:

1. Approve the recommended position of **SUPPORT IF AMENDED** regarding **AB 55 (Correa)** which would allow employee purchase of nonqualified service credit.
2. Instruct the County's legislative advocates in Sacramento, working with affected departments, other counties and interest groups to pursue the proposed amendments to AB 55 and advocate this position on behalf of Los Angeles County.

AB 55 (Correa) is a local option urgency measure that would amend the 1937 County Employee Retirement Act and allow an employee to purchase up to 5 years of service credit without any requirement that the credit reflect actual service. To be eligible, the employee must have completed at least five years of service and purchase this time by a lump sum payment within 120 days following retirement or through installments over a period of up to 10 years.

The cost of the credit must be actuarially determined by the retirement association to recover its full cost, to the extent that cost can be determined at the time of purchase. Additionally, the purchased time can not: 1) be counted as service for vesting purposes, 2) be used to meet the minimum service requirement for a non service-connected disability retirement, 3) qualify as county service, public service, military service, medical leave of absence, or any other time recognized for service credit by the retirement system and, 4) be used to determine eligibility for a county subsidy toward retiree health care.

Board of Supervisors
GLORIA MOLINA
First District

YVONNE BRATHWAITE BURKE
Second District

ZEV YAROSLAVSKY
Third District

DON KNABE
Fourth District

MICHAEL D. ANTONOVICH
Fifth District

Current Law: Existing law does not authorize 1937 Act retirement systems to allow their members to purchase additional service credit in the system that is not linked with actual service performed. A recent set of changes to federal tax law allow an employee to roll-over funds in a 457 or other savings plan into a qualified retirement plan like those in the 1937 Act systems. SB 2126 (Committee on Public Employment and Retirement), which was signed by the Governor in 1998, authorized vested members of the California State Teachers' Retirement System to purchase up to five years of additional service credit for "nonqualified service" in the retirement system.

Concerns: ,My office is concerned that AB 55, if implemented in the County, could result in an unfunded liability if LACERA's earnings do not match the assumed rate of return for the purchased credit. Additionally, there could be an increase in retiree health insurance costs to the extent that such employees retire sooner and begin participating at an earlier age in the retirement health insurance program. As currently written, my office and County Counsel are also concerned that AB 55 does not, by its terms, permit a board of supervisors to selectively implement the program or, once adopted as a local option, to modify or discontinue it in the future.

Retirement programs are normally considered an employee retention device. Retirement incentive programs represent the opposite. **It is important that employers have the discretion to determine which positions should be eligible for participation and when a program should be discontinued.** If, for example, the program began to generate unexpected costs or, if excessive attrition were occurring in critical occupational categories or, if other unintended adverse consequences were to develop, there are no provisions in AB 55 to modify or terminate the program in response.

The absence of such flexibility could also lead to the argument that the program, once adopted, would create a vested employee right. Our proposed amendments, however, would provide that any modification or termination of the program would not affect an employee's election to purchase retirement service credit made prior to the date such modification or termination is made effective.

We recommend support of AB 55, if it is amended to provide more fiscal and administrative control to county boards of supervisors as described above. AB 55 would be beneficial in recruiting and retaining new employees, encouraging former employees to return to the workforce and, in providing existing employees with another means of investing in their own retirement without additional cost to the County. Such a position is consistent with existing County policy to support or sponsor local option legislation needed to implement employee compensation or benefit changes, as directed by the Board of Supervisors.

The State Association of Retirement Systems (SACRS), a co-sponsor of AB 55, indicates that the primary reason for the bill is to encourage additional investment in one's own

Honorable Board of Supervisors
June 3, 2003
Page 3

retirement. According to SACRS, approximately 68 percent of the work force in 1937 Act counties are women. AB 55 would allow women, who are returning to work after having children, the opportunity to purchase up to 5 years of service credit, thereby making up some, or all, of the time they were out of the work force. Additionally, qualified individuals from out-of-state would be more likely to consider county employment in California at mid-career because of the incentive to purchase an additional 5 years of service credit. It may also attract individuals from the private sector for hard-to recruit positions where private pension plans are disappearing or less generous.

AB 55 is co-sponsored by the State Association of County Retirement Systems (SACRS) and the California Professional Firefighters Association, and has the support of numerous employee organizations, including: Association for Los Angeles Deputy Sheriffs, California District Attorneys Association, California Independent Public Employees Legislative Council, California State Sheriffs' Association, Los Angeles County Firefighters, Los Angeles County Probation Officers Union, Los Angeles County Professional Peace Officers Association, Peace Officers Research Association, Southern California Alliance of Law Enforcement Associations, State Coalition of Probation Organizations, and the Union of American Physicians and Dentists. There is no registered opposition. AB 55 passed the Assembly on April 4, 2003 on a 73- to-1 vote and is currently in the Senate Committee on Personnel and Employee Relations with no hearing date set.

This recommended position will be added to the State Legislative Agenda and is consistent with the following specific County Strategic Plan Goals: enhance the quality and productivity of the County workforce and strengthen the County's fiscal capacity.

Respectfully submitted,

DAVID E. JANSSEN
Chief Administrative Officer

DEJ:GK
MAL:DDN:ib

c: Executive Officer, Board of Supervisors
County Counsel